AMERICAN EAGLE PETROLEUMS LTD.

ANNUAL REPORT

1974

OFFICERS AND DIRECTORS AND THEIR PRINCIPAL OCCUPATIONS

Dallas E. Hawkins II, Calgary, Alberta
Chairman of the Board of Directors & Director
President of Oakwood Petroleums Ltd.,
Oil and Gas Company.

Gerhard Kasdorf, Calgary, Alberta
President & Director

Brian G. McCombe, Calgary, Alberta
Secretary & Director
Partner with McLaws & Company, Barristers and Solicitors

Brian S. Ekstrom, Calgary, Alberta
Treasurer & Director
President of Brian Ekstrom Management Ltd.,
Management Company.

L. Lamont Gordon, Montreal, Quebec
Director
President of Gordon Securities Ltd., Broker-Dealer.

Gerald E. Naylen, Regina, Saskatchewan
Director
Partner with Hleck, Kanuka & Co., Barristers and Solicitors

G. J. van den Berg, Beaconsfield, Quebec
Director
Director of Investors Group, Mutual Fund

Harold M. Burgess, Calgary, Alberta
Assistant Secretary
Partner with Burgess & Ball, Barristers and Solicitors

Trudy V. Kerr, Calgary, Alberta
Assistant Secretary

Head Office
220 One Calgary Place, 330 - 5th Avenue S.W., Calgary, Alberta T2P 0L4

Subsidiary Companies
American Eagle Petroleums, Inc.
Gull Oil & Gas Ltd.

Auditors
Peat, Marwick, Mitchell & Co., Calgary, Alberta

Legal Counsel
McLaws & Company

Banker
The Royal Bank of Canada, Calgary, Alberta

Registrars and Transfer Agent
Guaranty Trust Company of Canada, Calgary, Alberta
Montreal, Toronto, Regina, Vancouver

Stock Exchange Listings
Montreal Stock Exchange
Toronto Stock Exchange

STATISTICAL SUMMARY

	1974	1973
Gross Income (after royalties)	$ 396,457	$ 452,675
Net Loss	61,666	128,727
Loss per share	0.01	0.03
Shares Outstanding	4,151,629	4,126,629
Gross Wells Drilled		
Oil	6	8
Gas	1	17
Dry	10	17
Net Reserves		
Oil — Proved and Probable (barrels)	703,700*	1,420,300
Gas — Proved and Probable (million cubic feet)	9,940*	68,000
Non-Producing Property Interests		
Gross Acres	2,137,912	2,071,687
Net Acres	121,971	152,028
Number of Shareholders	856	861

* Net after royalties.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of your Company are pleased to present your Company's 1974 Annual Report for the year ended December 31, 1974.

During 1974 your Company sold the Tide Lake shallow gas properties for a net cash consideration of $1,961,504. This is reflected in the financial statements as an extra-ordinary item. While your Company does not make a practice of selling producing properties, it was felt by the Directors that the price was very attractive and the sale would result in increased working capital and also allow the Company to retire part of its long term debt.

Your Company made a number of corporate changes during 1974, comprising of the voluntary liquidation of Tide Lake Petroleums Ltd. and Mer-Mak Explorations Ltd., two wholly owned subsidiary companies of American Eagle. The Directors felt that these subsidiaries resulted in additional accounting time and money and were extraneous.

Your Company was less active in exploration and drilling in 1974 than in previous years. We did however participate in 17 wells, resulting in 1 gas well and 6 oil wells. The decrease in activity was primarily due to the policies adopted by both the Federal and Provincial Governments with respect to royalties and taxation. It was encouraging over the past year to see some relaxation of governmental interference and regulations imposed over the past two years. This interference considerably dampened drilling activity in the oil and gas industry in Canada. The Alberta Provincial Government, however, did bring out certain new legislation providing drilling incentives and lower royalties which resulted in an improved, more optimistic atmosphere for the oil and gas industry. Gas price increases resultant from the Gulf Oil arbitration award on renegotiation of all gas purchase contracts was set at $1.15/MCF. This is a substantial increase since prior to the Gulf Oil award, gas prices were approximately 60c/MCF, and although royalties and taxes have increased over the past year, part of this increase will be passed on to the producing companies.

It was reported in our last report that Oakwood Petroleums Ltd. had acquired a substantial interest in American Eagle shares resulting in effective control of American Eagle. Therefore, since both companies are now working in close unity, your directors felt it advantageous to share office space in an effort to decrease overhead. The companies are also using the same staff. Your directors feel this is a substantial saving in overhead costs.

Prior to year-end, American Eagle planned to proceed with additional development drilling in the Province of Alberta which hopefully will result in a substantial increase in the Company's gas reserves. If the drilling is successful it should increase the Company's estimated 10 billion cubic feet of uncommitted gas reserves which when committed will be sold at the increased gas prices.

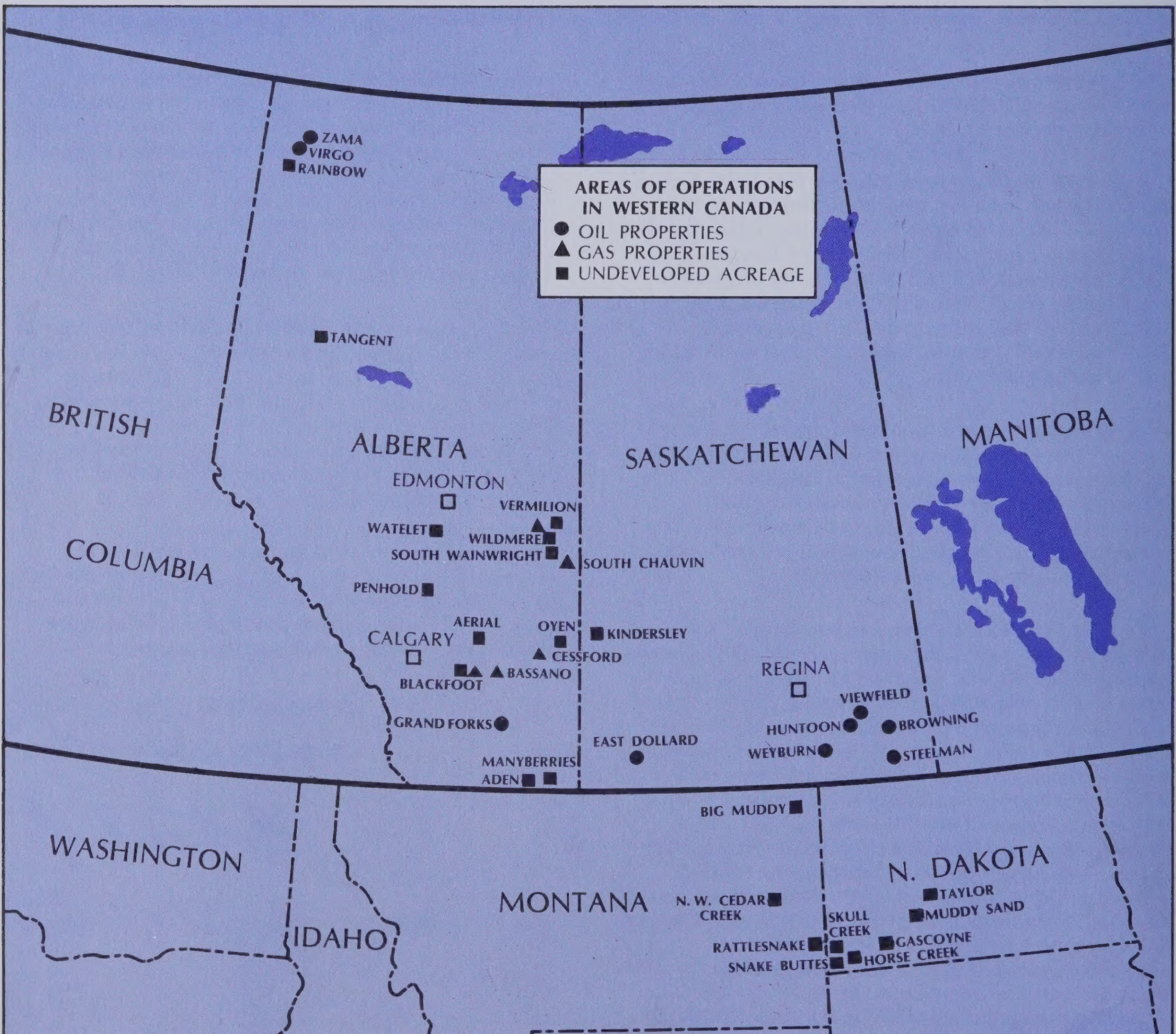
Your Company is now in an attractive position to proceed with its policies of attempting to increase its assets through development drilling of proven and semi-proven areas and the participation in what are considered to be sound exploratory prospects.

On behalf of the Board of Directors

G. Kasdorf

G. Kasdorf
President

August 11, 1975

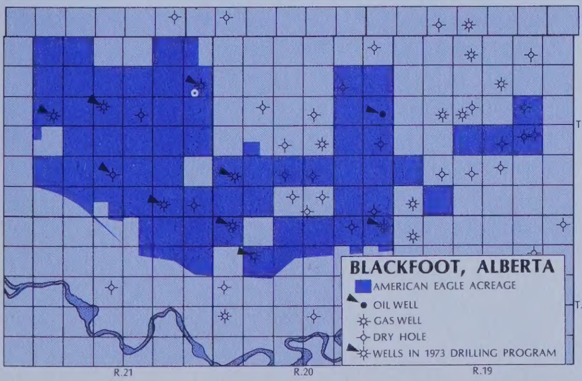

AREAS OF OPERATIONS IN WESTERN CANADA
OIL PROPERTIES
GAS PROPERTIES
UNDEVELOPED ACREAGE
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
WASHINGTON
IDAHO
MONTANA
N. DAKOTA
ZAMA
VIRGO
RAINBOW
TANGENT
EDMONTON
VERMILION
WATELET
WILDMERE
SOUTH WAINWRIGHT
SOUTH CHAUVIN
PENHOLD
AERIAL
CALGARY
OYEN
KINDERSLEY
CESSFORD
BASSANO
BLACKFOOT
GRAND FORKS
MANYBERRIES
ADEN
EAST DOLLARD
REGINA
VIEWFIELD
HUNTOON
BROWNING
WEYBURN
STEELMAN
BIG MUDDY
N. W. CEDAR CREEK
SKULL CREEK
RATTLESNAKE
SNAKE BUTTES
HORSE CREEK
GASCOYNE
TAYLOR
MUDDY SAND

RESERVES

Your Company has had an independent evaluation of American Eagle's properties effective January 1, 1975, naming the principal crude oil producing properties as Browning, East Dollard and Viewfield in Saskatchewan and the Virgo-Zama fields in Alberta. The principal natural gas properties are the Blackfoot-Countess and Wildmere fields in Alberta.

Net proved and probable recoverable oil reserves remaining at January 1, 1975, were estimated to be 703,700 barrels. Net proved and probable recoverable natural gas reserves were 9.94 billion cubic feet. These reserves are forecast to generate a future net revenue of $7,327,500 and this net revenue was estimated to have a present worth value of $3,816,600 discounted at 8%. In addition to the reserves which the Company holds, it also has properties which do not have any reserves assigned to them at this time but are estimated to have a value of $952,400. It should be noted that it is very difficult to assign values to certain unproven acreage and in particular to your Company's acreage holdings off the Coast of Labrador. There has been a reduction in your Company's reserves, primarily in gas. This is as a result of the sale of the Tide Lake properties during 1974. Your Company is continuing its program to explore for and develop additional reserves.

EXPLORATION AND DEVELOPMENT



BLACKFOOT (Map)

Your Company's 1973 Annual Report carried the farmout of American Eagle's interest in the Blackfoot area. At present there have been a total of 13 wells drilled on the prospect with 12 commercially productive for gas. American Eagle, however, has an interest in only 10 of the 13 wells under the terms of the farmout to Great Basins by retaining a net profits interest in each of the 10 wells in addition to a 12½% working interest in approximately 40,500 gross petroleum and natural gas lease acres under the head farmout agreement with PanCanadian Petroleum Limited.

Further drilling is planned for the 1975 drilling season to attempt to prove up sufficient gas for a gas sales contract in order to place the gas on stream which is anticipated to be sometime in 1976. The gas from the Blackfoot area presently is uncommitted and it is anticipated that a purchase price of approximately $1.15/MCF will be obtained.

CONNORSVILLE

American Eagle has purchased a 40% working interest in a gas well presently being put on production in the Connorsville area of Alberta. The well is located on Lsd. 11, Section 11, Township 26, Range 15 W4M. Included in the purchase was an additional 20% working interest in 7,200 acres. Your Company's net acreage including the 40% working interest in the 640-acre spacing unit on which the well is situated is 1,696 net acres. A gas purchase contract has been negotiated with TransCanada PipeLines which calls for them to pay 60c/MCF. The well is expected to produce 2.5 MMCF/D. If this well exhibits good producing characteristics, it is planned to drill at least one additional well on the prospect prior to year end.

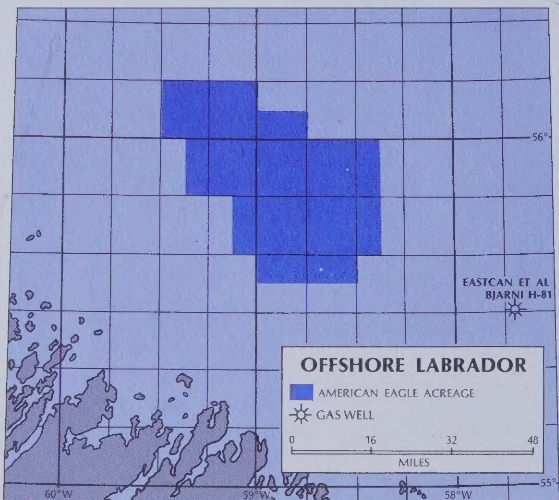
TIDE LAKE

During 1974, your Company sold its interest in the Tide Lake properties of Alberta. American Eagle had a 50% working interest and a 6 2/3% royalty interest in 10,240 gross acres on which there are 4 Milk River Medicine Hat shut-in gas wells. The net monies received for our interest in these properties was $1,961,504 which represents an approximate price of $381.46 per acre. As a result of this sale, your Company now is in a very comfortable working capital position and it was felt that a portion of these funds were necessary in order to develop and put on production semi-proven properties which the Company now holds.

BASSANO

Your Company's acreage at Bassano has been fully developed in the Medicine Hat zone with the drilling of 4 gas wells by Great Basins Petroleum Company and it is anticipated that these properties will go on

production during 1975. Great Basins who drilled the Medicine Hat gas wells and earned a 50% working interest in the property has decided not to earn their interest in the Milk River formation, therefore, American Eagle and its partners have retained their 100% working interest in the Milk River formation.

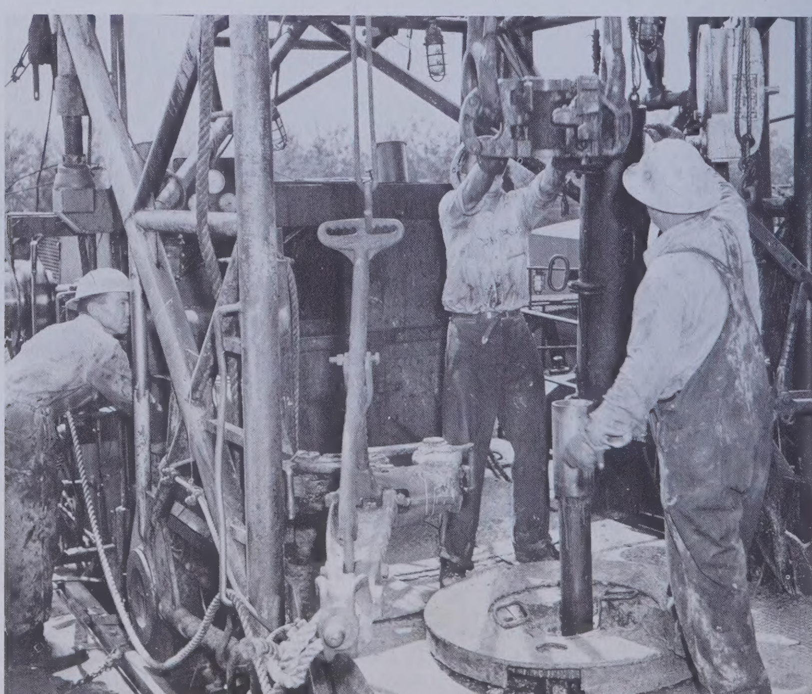


OFF SHORE LABRADOR (Map)

American Eagle has increased its interest slightly in 753,404 permit acres located off the East Coast of Labrador presently holding a 6.6971% working interest. It was reported that a test well was drilled by the Eastcan group approximately 30 miles southeast of the permit block in which your Company holds its interest.

This well, as shown on the map as the Eastcan et al Bjarni H-81 gas well was drilled to a depth of 8,251′ and flowed at 13 MMCF/D during tests run in October of 1974.

It has recently been reported that the Eastcan group have scheduled a well to be drilled in July, 1975 located approximately 40 miles to the northwest of our block. The results of this well will be of considerable interest as our acreage is situated on trend between the Eastcan et al Bjarni H-81 gas well and the proposed location. Exploration activity in the Labrador offshore area is ever increasing and it is hoped that within the next year we should be in a position to more accurately evaluate your Company's holdings in the area.



PRICE RANGE OF THE COMPANY'S SHARES FOR THE LAST TWO YEARS

	1974		1973	
Quarter	**High**	**Low**	**High**	**Low**
First	$1.14	$ .76	1.29	.80
Second	1.20	.90	1.09	.80
Third	.91	.50	1.05	.66
Fourth	.63	.30	1.15	.70

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED STATEMENT OF INCOME

Material changes in the Company's operations between 1973 and 1974 can be itemized as follows:

1. Gross revenue from oil and gas sales (net of all royalty burden) declined from approximately $435,000 in 1973 to approximately $369,000 in 1974. The sales of crude oil and natural gas before deduction of royalty charges amounted to about $745,000 in 1974 — up from about $581,000 in 1973. However, the royalty burden on these sales rose from approximately $145,000 in 1973 to approximately $375,000 in 1974 — thereby reducing net oil and gas sales to about $369,000 in 1974.

2. Lease operating costs on the Company's producing properties rose by $31,103 to $142,809 in 1974.

3. Interest costs on corporate debt rose to $176,267 from $125,165 — an increase of $51,102.

4. Administrative costs were reduced by $42,587 to $155,951 in 1974.

5. Depletion and depreciation provisions totalled $170,186 in 1974 as compared to $124,004 in 1973 — an increase of $46,182.

6. Extraordinary income amounting to $201,000 in 1974 resulted from the sale of a portion of the Company's natural gas reserves — this being the net gain on sale after provision for taxes amounting to $139,000.

Material changes in the Company's between 1972 and 1973 include:

1. Oil and gas sales increased by $103,892 to $435,977.

2. Interest costs on corporate debt rose to $125,164 — an increase of $57,188.

3. Depletion and depreciation provisions increased by $34,460 to $124,004 in 1973.

As shown in the Company's Consolidated Statement of Income, gross income for the year ended December 31, 1974 declined from that for the year ended December 31, 1973. This was primarily the result of much higher royalty burdens payable to the Crown in Canada which more than offset the effect of higher prices received for crude oil and natural gas sales. The Company's net loss in 1974 decreased, however, due to an extraordinary item of income—the sale of a portion of the Company's natural gas reserves. This income was partly offset by higher operating costs and higher interest charges on corporate debt and by higher charges against income for depletion and depreciation than in prior years.

Although the Company's gross income for the year ended December 31, 1973, increased by almost 34% over gross income for the year ended December 31, 1972, the Company's net loss for the year ended December 31, 1973 was decreased by only approximately 16% from the Company's net loss for the year ended December 31, 1972. This was primarily due to increased interest, depletion and depreciation expenses incurred by the Company during the year ended December 31, 1973.

CONSOLIDATED BALANCE SHEET

December 31, 1974
(with comparative figures for 1973)

ASSETS

	1974	1973
Current assets:		
Cash and term deposits	$1,265,485	60,640
Accounts receivable	267,972	325,944
Total current assets	1,533,457	386,584
Investment in E.P.C. Corporation (Note 7)	91,489	91,489
Property and equipment, at cost (Notes 2 and 3)	2,933,859	4,230,413
Less accumulated depreciation and depletion	581,543	374,193
	2,352,316	3,856,220
Refundable deposits	30,064	33,608
	$4,007,326	4,367,901

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Current liabilities:		
Accounts payable and accrued liabilities	$ 291,545	317,000
Long-term debt — current portion (Note 3)	24,350	258,562
Total current liabilities	315,895	575,562
Long-term debt (Note 3)	1,178,650	1,376,892
Deferred income taxes	139,000	—
Shareholders' equity:		
Capital stock (Note 4):		
Common shares without nominal or par value: Authorized 20,000,000 shares; issued 4,151,629 shares (1973 — 4,126,629 shares)	3,103,210	3,083,210
Deficit	729,429	667,763
	2,373,781	2,415,447
Commitments (Note 5)		
On behalf of the Board:		
G. KASDORF, Director		
B. EKSTROM, Director		
	$4,007,326	4,367,901

See accompanying notes.

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

Year ended December 31, 1974
(with comparative figures for 1973)

	1974	1973
Revenue:		
Oil and gas sales	$369,782	435,977
Interest and other	26,675	16,698
	396,457	452,675
Expenses:		
Production	142,809	111,706
Engineering and geological	14,079	12,011
Administration	155,951	208,516
Interest on long-term debt	176,267	125,165
	489,106	457,398
	92,649	4,723
Charges not requiring cash expenditure:		
Depreciation	33,994	17,714
Depletion	136,192	106,290
	~~170,186~~	124,004
Loss before the following	262,835	128,727
Extraordinary item:		
Gain on disposal of resource property (net of deferred income tax of $139,000)	201,169	—
Loss for the year	61,666	128,727
Deficit at beginning of year	667,763	539,036
Deficit at end of year	$729,429	667,763

Loss per share based on weighted average of shares outstanding during the year. The effect on the loss per share assuming the issue of all the shares reserved for issue at year end is anti-dilutive.

	1974	1973
Loss before extraordinary item	$ 0.06	0.03
Extraordinary item	(0.05)	—
Net loss	$ 0.01	0.03

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1974
(with comparative figures for 1973)

	1974	1973
Source of funds:		
Proceeds from issuance of share capital	$ 20,000	29,000
Increase in long-term debt	484,000	503,900
Other	3,544	2,517
Proceeds on sale of property and equipment	50,893	80,805
Funds provided by extraordinary item	1,961,504	—
Total funds provided	2,519,941	616,222
Use of funds:		
Loss before extraordinary item	262,835	128,727
Items not involving funds	(170,186)	(124,004)
Funds used in operations	92,649	4,723
Decrease in long-term debt	662,242	442,224
Cancellation of common shares	—	31,833
Purchase of property and equipment	338,510	575,925
Conversion of 8% convertible notes	20,000	29,000
Total funds used	1,113,401	1,083,705
Increase (decrease) in working capital	1,406,540	(467,483)
Working capital (deficiency), beginning of year	(188,978)	278,505
Working capital (deficiency), end of year	$1,217,562	(188,978)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1974

1. Accounting Principles:

The consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries. The accounts of American Eagle Petroleums, Inc. are maintained in U.S. Dollars and have been converted into Canadian dollars in accordance with generally accepted accounting principles.

The Company follows the full cost method of accounting for exploration and development expenditures wherein all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs capitalized include those related to acquisition of petroleum and natural gas rights, geological and geophysical exploration, lease rentals on undeveloped properties, drilling of productive and non-productive wells and general and administrative expenses directly related to exploration activities. All such costs are being depleted on a composite unit-of-production method based on estimated recoverable reserves. Depreciation on lease and well equipment is provided on a unit-of-production basis. Other assets are depreciated over their estimated useful lives.

Proceeds on minor property sales are credited to the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are calculated by comparing the percentage of reserves sold to total company reserves and calculating the cost of the property sold as that same percentage of total net book value of property. Any resulting gain or loss is recognized in the statement of income for the year.

2. Property and Equipment:

	Cost	Accumulated Depreciation and Depletion	Net Net Book Value
Producing and non-producing petroleum and natural gas rights including development thereon	$2,219,747	374,314	1,845,433
Non-producing mining claims	50,400	—	50,400
Well equipment	643,255	200,091	443,164
Office equipment and improvements	20,457	7,138	13,319
	$2,933,859	581,543	2,352,316

3. Long-Term Debt:

	1974	1973
8% convertible notes, redeemable January 1, 1977	$ 253,000	189,000
Demand bank loan less current portion	925,650	710,000
Demand bank loan (U.S. Dollars)	—	477,892
	$1,178,650	1,376,892

The convertible notes are redeemable in whole or in part at the option of the Company to the date fixed for redemption. The Company has agreed, with the consent of the note holders subsequent to December 31, 1974, that it will redeem on January 1, 1976 one-half of the principal amount of the notes outstanding. In addition, the notes are convertible at any time to the date fixed for redemption into fully paid and non-assessable common shares of the Company on the basis of one share for every $0.80 principal amount of notes.

Although the demand bank loan is subject to call on demand, under the agreed terms of repayment an amount of $24,350 per month ($292,200 per year) plus interest is payable. The loan is secured by a general assignment of accounts receivable and certain petroleum and natural gas properties and production proceeds. Interest is payable at the rate of 1% above the prime rate set from time to time by a Canadian Chartered bank.

4. Capital Stock:

Transactions in the Company's capital stock during the year ended December 31, 1974 were as follows:

	Number of Shares	Amount
Balance, December 31, 1973	4,126,629	$3,083,210
Issued on conversion of 8% note	25,000	20,000
Balance, December 31, 1974	4,151,629	$3,103,210

Common shares have been reserved for issue as follows:

	Number of Shares
Pursuant to shares granted to a director under a share purchase plan at $0.50 per share	100,000
For issuance on exercise of share purchase warrants at $1.50 per share expiring October 22, 1981	300,000
On conversion of the $253,000 8% convertible notes (Note 3)	316,250
	716,250

5. Commitments:

In order to retain its interest in undeveloped oil and gas properties, the Company will be required to pay lease rentals which, based on its holdings at December 31, 1974, will amount to approximately $60,000 per annum.

6. Remuneration of Directors and Officers:

The aggregate remuneration paid to directors and officers during the year amounted to $30,000.

7. Investment:

The investment in E.P.C. Corporation is represented by:

	1974	1973
Shares at cost	$80,929	80,929
Advances	10,560	10,560
	$91,489	91,489

The investment in shares of E.P.C. Corporation represents 40% of the outstanding capital stock of that corporation for which there is no quoted market value.

The ultimate recovery of this investment is dependent upon E.P.C.'s ability to obtain a return on the funds spent on the research and development of a new technique based on radiometric principles for discovering oil and gas.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of American Eagle Petroleums Ltd. and Subsidiaries as at December 31, 1974 and the consolidated statements of income and deficit and changes in financial position for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, subject to the outcome of the matter referred to in Note 7 to the consolidated financial statements, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of affairs of the company and subsidiaries as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. All the transactions of the company that have come within our notice, in our opinion, have been within the objects and powers of the company.

Calgary, Alberta
July 4, 1975

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

AMERICAN EAGLE PETROLEUMS LTD.

lawson graphics western limite
Litho'd in Canada